

## Exercises: Set B—Solutions

### E1B. Recognition

Jan.	15	Not recorded. An offer is not a completed transaction.
Feb.	2	Not recorded. Notice of a price increase is not a transaction.
Mar.	29	Recorded. The utilities expense has been incurred, and the liability for payment exists.
June	10	Not recorded. An order does not constitute a recognition point.
July	6	Recorded. Trattoria Corporation now records the office equipment, and a liability to pay exists.

### E2B. Classification of Accounts

Item	Type of Account						Normal Balance	
	Asset	Liability	Stockholders' Equity				Debit	Credit
			Common	Retained Earnings				
				Stock	Dividends	Revenue		
a.	x						x	
b.						x	x	
c.	x						x	
d.			x					x
e.	x						x	
f.	x						x	
g.		x						x
h.	x						x	
i.					x			x
j.						x	x	
k.	x						x	
l.						x	x	
m.					x			x
n.				x			x	
o.		x						x
p.		x						x
q.	x						x	
r.		x						x
s.	x						x	
t.						x	x	
u.		x						x
v.	x						x	
w.	x						x	
x.						x	x	
y.		x						x
z.						x	x	

**E3B. T Accounts, Normal Balance, and the Accounting Equation**

Assets		=	Liabilities	+	Stockholders' Equity															
					Common Stock		+	Retained Earnings		-	Dividends		+	Revenues		-	Expenses			
Cash			Accounts Payable		Common Stock			Retained Earnings			Dividends			Service Revenue			Rent Expense			
		1,725					600						900						300	
\$1,725		=	\$600	+	\$1,125															
\$1,725		=	\$1,725																	

E4B. Transaction Analysis	
a.	The asset account Cash was increased. Increases in assets are recorded by debits. Debit Cash \$2,500. A component of stockholders' equity, Common Stock, was increased. Increases in common stock are recorded by credits. Credit Common Stock \$2,500.
b.	The asset Prepaid Rent was increased. Increases in assets are recorded by debits. Debit Prepaid Rent \$1,680. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$1,680.
c.	The asset Supplies was increased. Increases in assets are recorded by debits. Debit Supplies \$120. The liability Accounts Payable was increased. Increases in liabilities are recorded by credits. Credit Accounts Payable \$120.
d.	The asset Cash was increased. Increases in assets are recorded by debits. Debit Cash \$700. Stockholders' equity was increased by the fees earned. Increases in stockholders' equity are recorded by credits. Credit Salon Fees Earned \$700.
e.	The liability Accounts Payable was decreased. Decreases in liabilities are recorded by debits. Debit Accounts Payable \$120. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$120.
f.	The stockholders' equity was decreased by the utilities expense. Decreases in stockholders' equity are recorded by debits. Debit Utilities Expense \$72. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$72.
g.	The stockholders' equity was decreased when dividends were paid to the stockholders. Decreases in stockholders' equity are recorded by debits. Debit Dividends \$200. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$200.
E5B. Transaction Analysis	

E6B. Recording Transactions in T Accounts							
Cash				Accounts Payable			
a.	4,300	b.	800	f.	400	c.	1,100
g.	3,720	d.	600			Bal.	700
		e.	900	Common Stock			
		f.	400			a.	5,900
		h.	650	Dividends			
	8,020		3,350	h.	650		
Bal.	4,670			Repair Fees Earned			
Repair Supplies						g.	3,720
c.	1,100			Salaries Expense			
Repair Equipment				e.	900		
a.	1,600			Rent Expense			
d.	600			b.	800		
Bal.	2,200						
E7B. Analysis of Transactions							
a.	Company issued common stock of \$20,000.						
b.	Purchased equipment with cash, \$7,500.						
c.	Billed customer for services rendered, \$4,000.						
d.	Purchased equipment on account, \$4,500.						
e.	Paid wages with cash, \$1,800.						
f.	Paid cash owed on account, \$2,250.						
g.	Received cash \$750 as partial payment for transaction c.						
h.	Sold equipment (at cost) for cash, \$450.						

E8B. Analysis of Unfamiliar Transactions				
May	1	Merchandise Inventory	1,400	
		Accounts Payable		1,400
		Purchased merchandise inventory on account		
<b>Note to Instructor:</b> The answer given here assumes the perpetual inventory method because it is most intuitive at this point in the course. The purpose of this exercise is to focus on analytical thinking.				
	2	Marketable Securities	3,000	
		Cash		3,000
		Purchased marketable securities		
	3	Accounts Payable	250	
		Merchandise Inventory		250
		Returned part of merchandise inventory for full credit		
	4	Accounts Receivable	800	
		Sales		800
		Sold merchandise inventory on account		
<b>Note to Instructor:</b> A full discussion might be held at this point on what should be done to the Merchandise Inventory account.				
	5	Land	100,000	
		Building	200,000	
		Cash		60,000
		Mortgage Payable		240,000
		Purchased land and building with partial payment in cash		
	6	Cash	3,500	
		Advance Deposit or Unearned Revenue		3,500
		Recorded deposit on services of \$12,000 to be provided		

**E9B. Trial Balance**

Stan Repair Service, Inc.		
Trial Balance		
June 30, 2014		
Cash	4,670	
Repair Supplies	1,100	
Repair Equipment	2,200	
Accounts Payable		700
Common Stock		5,900
Dividends	650	
Repair Fees Earned		3,720
Salaries Expense	900	
Rent Expense	800	
	<u>10,320</u>	<u>10,320</u>

**E10B. Preparing a Trial Balance**

Kremer Corporation		
Trial Balance		
March 31, 2014		
Cash	5,400	
Accounts Receivable	2,800	
Prepaid Insurance	660	
Land	3,120	
Building	20,400	
Equipment	7,200	
Notes Payable		10,000
Accounts Payable		10,800 *
Common Stock		12,000
Retained Earnings		6,780
	<u>39,580</u>	<u>39,580</u>
* $\$39,580 - (\$10,000 + \$12,000 + \$6,780) = \$10,800$		

**E11B. Effects of Errors on a Trial Balance**

a.	Unequal totals. The total debits would be \$27 more than the total credits.
b.	Equal totals. However, both Accounts Receivable (an asset account) and Accounts Payable (a liability account) would be overstated by \$150.
c.	Equal totals. However, both accounts would be incorrect. Cash would be overstated by \$378, and Office Supplies would be understated by \$378.
d.	Equal totals. However, an error has been made by debiting the wrong asset. Therefore, Supplies would be overstated by \$450, and Equipment would be understated by \$450.

<b>E12B. Correcting Errors in a Trial Balance</b>		
<b>Sullivan Services, Inc.</b>		
<b>Trial Balance</b>		
<b>July 31, 2014</b>		
<b>Cash</b>	<b>4,060</b>	
<b>Accounts Receivable</b>	<b>5,780</b>	
<b>Supplies</b>	<b>240</b>	
<b>Prepaid Insurance</b>	<b>360</b>	
<b>Equipment</b>	<b>7,400</b>	
<b>Notes Payable</b>		<b>2,400</b>
<b>Accounts Payable</b>		<b>3,860</b>
<b>Common Stock</b>		<b>3,000</b>
<b>Retained Earnings</b>		<b>7,560</b>
<b>Dividends</b>	<b>1,100</b>	
<b>Revenues</b>		<b>5,920</b>
<b>Salaries Expense</b>	<b>2,600</b>	
<b>Rent Expense</b>	<b>600</b>	
<b>Advertising Expense</b>	<b>340</b>	
<b>Utilities Expense</b>	<b>260</b>	
	<b><u>22,740</u></b>	<b><u>22,740</u></b>

**E13B. Recording Transactions in the General Journal**

General Journal				
2014				
	a.	Cash	4,300	
		Repair Equipment	1,600	
		Common Stock		5,900
		Invested cash and repair equipment in exchange for common stock		
	b.	Rent Expense	800	
		Cash		800
		Paid current month rent		
	c.	Repair Supplies	1,100	
		Accounts Payable		1,100
		Purchased repair supplies on credit		
	d.	Repair Equipment	600	
		Cash		600
		Purchased additional repair equipment for cash		
	e.	Salaries Expense	900	
		Cash		900
		Paid salary to a helper		
	f.	Accounts Payable	400	
		Cash		400
		Paid \$400 of the amount purchased on credit in transaction c		
	g.	Cash	3,720	
		Repair Fees Earned		3,720
		Accepted cash for repairs completed		
	h.	Dividends	650	
		Cash		650
		Declared and paid a cash dividend		



E14B. Recording Transactions in the General Journal and Posting to the Ledger Accounts							
General Journal							Page 10
Date		Description			Post. Ref.	Debit	Credit
Dec.	14	Equipment			146	6,000	
		Cash			111		2,000
		Accounts Payable			212		4,000
		Purchased equipment; paid one-third in cash					
	28	Accounts Payable			212	3,000	
		Cash			111		3,000
		Paid for part of equipment purchased on credit					
General Ledger							
Cash						Account No. 111	
Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
Dec.	13	Balance	✓			8,000	
	14		J10		2,000	6,000	
	28		J10		3,000	3,000	
Equipment						Account No. 146	
Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
Dec.	14		J10	6,000		6,000	
Accounts Payable						Account No. 212	
Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
Dec.	14		J10		4,000		4,000
	28		J10	3,000			1,000

**E15B. Application of Recognition Point****1. Purchases recognized on date shipped**

Order	Date Shipped		Date Received		Amount
b	July	10	July	15	\$ 750
c		16		22	400
d		23		30	600
e		27	Aug.	1	<u>750</u>
Total July purchases					<u>\$2,500</u>

**2. Purchases recognized on date received**

Order	Date Shipped		Date Received		Amount
a	June	26	July	5	\$ 300
b	July	10		15	750
c		16		22	400
d		23		30	<u>600</u>
Total July purchases					<u>\$2,050</u>

**E16B. Cash Flow Analysis**

Revenues from Services		Cash Sale	Cash		Cash Purchase	Expenses			
	750		750	550		550			
	900		600	350		650			
	1,650		1,350	900		1,200			
			450						
Credit Sale		Collection on Account			Payment on Account	Credit Purchase			

The cash balance after these transactions is \$450. The amount still to be received (the balance of Accounts Receivable) is \$300. The amount still to be paid (the balance of Accounts Payable) is \$300.